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TAGS: ENRG ECON EPET SG
SUBJECT: WHAT DID SENEGALESE DO BEFORE THEY HAD CANDLES?;
SENEGAL'S WORSENING ENERGY SITUATION

¶1. (U) SUMMARY: The latest political joke making the rounds in Dakar these days is: "What did Senegalese do before they had candles? ... They had electricity." Unfortunately, Senegal's chronic electricity shortages are no laughing matter and continue to have adverse economic, social and political repercussions. Two important factors, which came to a head simultaneously to spur the crisis, were: a) the inability of the Government of Senegal (GOS) to pay subsidies on butane gas to the the Societe Africaine de Rafinage (SAR), the country's only oil refinery, which resulted in the recent shut down of its operations, and b) the failure of Senegal's national electricity company Senelec to honor it financial commitments to its two main suppliers: Shell, which provides 60 percent of its fuel needs, and Total.

¶2. (U) Because of its financial shakiness, SAR's Board of Directors recently refused to rubber stamp the refinery's long-standing practice of buying crude oil on debt. Shell, simultaneously cut off its fuel supply to Senelec and threatened to stop providing fuel on credit as Senelec had racked up a USD 10 million debt with Shell. The actions taken by SAR's Board of Directors and Shell have had a ripple effect on Senegal's entire energy sector, most visibly causing electricity outages in businesses and households for several hours a day.

¶3. (U) Although quantitative estimates vary according to source, the situation is without doubt, causing a noticeable decrease in industrial output and commercial sales and will impede GDP growth. As the 2007 presidential and legislative elections loom, an economic slowdown could weaken the political resolve needed to push ahead with necessary economic reforms.

¶4. (U) Although the GOS has paid an announced USD 30 million on its outstanding debt to SAR, which has enabled the refinery to resume the importation of crude oil, discussions are underway on the remaining outstanding debt, which is estimated to be approximately USD 130 million. With World Bank support, the GOS has hired an outside consultant to reconcile the discrepancies surrounding the financial dispute between the GOS and SAR, and assist the GOS with harmonizing the price structure within the petroleum industry. However, given that SAR and the oil oligarchs (Total, Shell and Exxon/Mobil) control the petroleum scene in Senegal, the GOS, caught between a rock and a hard place with little wiggle room, is completely at the mercy of SAR and its shareholders --

Total, Shell and Exxon/Mobil. END SUMMARY.

POWER OUTAGES IN DAKAR AND OTHER CITIES

¶5. (U) Long power outages struck Senegal hard this last quarter, causing serious concern about potential economic and political shocks. With outages extending 12 to 15 hours in most areas of Dakar and in secondary cities, businesses and households alike have become more vociferous in their complaints. Reports on the blackouts appear daily in the press. Generators and candles have become two of the most sought after commodities, with cheap Chinese generators flooding the market. Reportedly, one can buy a small generator for as little as USD 300 to operate a tailor shop. Businesses that could tolerate short outages in the past must now either invest in their own power sources or shut their doors. According to local reports, the outages have contributed to the closure of many small and medium-sized enterprises (SMEs) in the food processing, textile and tourism sectors. Larger companies are reporting declines in output of upwards of 30 percent and have had to begin rolling brownouts at their manufacturing facilities to be able to continue to manufacture. Senegalese garment manufacturer Indosen has released more then 1,000 permanent and temporary workers.

DELINQUENT PAYMENTS: GOS, SENELEC, AND OIL RETAILERS
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¶6. (U) The GOS and Senelec are embroiled in a number of financial disputes with the oil suppliers, which have resulted in seriously weakening Senegal's economic development. The Government began subsidizing butane in 1973 in response to a World Bank effort to fight desertification and deforestation. While the GOS continues to subsidize the price of refined petroleum

product and butane gas, the Government halted its subsidy payments to SAR approximately seven months ago. The GOS claims that SAR and the distributors of butane gas have not provided them with invoices for payment. The GOS has already paid SAR USD 30 million; SAR reports that the Government still owes USD 130 million, which includes interest. Though the GOS challenges this figure, it has agreed to pay USD 79 million (CFA 42 billion) toward the debt. Negotiations are in progress between the two parties as an independent Canadian firm assesses the dispute with supported from the World Bank. Hired by the GOS, the Canadian firm has also been asked to audit the price structure of imported oil and to analyze the government's indebtedness to SAR. Once the independent consultant has reviewed SAR's claim, the GOS has said that it stands ready to pay the entire USD 49 million still owed. (COMMENT: Based on rough estimates, outstanding subsidies for butane gas alone are approximated at USD 50 million of the GOS debt to SAR. SAR's shareholders are: Total 54.4 percent, Shell 23.8 percent, Exxon/Mobil 11.8 percent, and Petrosen 10 percent. SAR has a nominal capacity to refine 17,000 barrels/day, or approximately 1 million tons per year, and supplies the national market and in part, the petroleum needs of neighboring countries. END COMMENT.)

¶7. (U) The accumulation of the GOS' unpaid subsidies has weakened SAR's financial standing, forcing it to absorb a portion of the difference between buying petroleum at world market prices on the spot market, and selling gas and refined petroleum products to domestic customers at lower prices, fixed by the Government. Industry sources estimate that SAR currently owes USD 160 million to the banking sector, which is separate from the government debt. Rumors abound that SAR is trying to squeeze the GOS by artificially inflating the amount that the Government owes to cover SAR's debts to the banks. Since the end of 2005, SAR's Board of Directors has refused to rubber stamp SAR's long-term practice of buying crude oil on bank

credit.

¶8. (U) Shell, on the other hand, which provides 60 percent of Senelec's petroleum needs, cut off its fuel supply because of outstanding payments and has imposed an USD 11 million credit limit on Senelec. Once this threshold is reached, Shell simply halts the supply of petroleum to Senelec. Faced with this unprecedented dilemma, Senelec has turned unsuccessfully to SAR and Total to secure fuel on credit. Senelec's total debt to Shell and Total amounts to estimated USD 50 million. Exxon/Mobil stopped supplying fuel to Senelec in 2005 due to similar issues related to non-payment.

¶9. (U) Senelec is the biggest consumer of petroleum products in Senegal, averaging 400,000 to 500,000 tons/year. SAR cannot supply more than 25 percent of Senelec's needs.

GE/GTI DESERVES PART OF THE BLAME

¶10. (SBU) Senelec's Director General Samuel Sarr has publicly accused GE/GTi, the U.S. independent power producer (IPP) of being partially responsible for the outages. GE/GTi has attempted to refute Senelec's accusations, indicating that when operational, GTi supplies only 22 percent of Senelec's normal load. (NOTE: GE/GTI halted production on December 26, 2005 and invoked the "force majeure" clause in the "Power Purchase Agreement" (PPA), due to a fire in its gas turbine, which severely damaged its operations with an estimated loss of USD 2 million. GE/GTi has made insurance claims for the damaged equipment, and has faulted Senelec's earlier power outages and surges for the fire. On May 2, 2006, GE/GTi resumed operation of its 35 MW gas turbine and its 15 MW steam turbine to add its full 50 MW to Senelec's grid. END NOTE.)

¶11. (U) In the meantime, one of Senelec's 30 MW plants at Cap de Biche has gone down. While reasons for the shutdown are unknown, obsolete equipment is probably to blame, according to industry outsiders.

OIL PRICE STRUCTURE ANOTHER SOURCE OF TENSION

¶12. (U) Senegal's price structure of petroleum products is rigid. It is composed of a number of price elements that can be divided into international and domestic. The international element or Basic Fuel Price (BFP) is based on an import-parity principal, which is a fixed price and is a major source of contention between the GOS and the oil suppliers: Shell, Total and Exxon/Mobil. The domestic elements, including port rights and a value-added tax (VAT), are harmonized community taxes set by the West African Monetary and Economic Union (WAEMU or UEMOA). Within the current price structure, a 53.30 percent tax on premium grade gasoline and a 38.8 percent tax on diesel are deposited directly into Senegal's national treasury. The price at the fuel pump reflects changes in world market prices or on the BFP, but Senegalese consumers have been relatively shielded by recent price hikes due to the GOS' subsidies on every liter of gas sold at the pump. When the GOS does not pay subsidies, the entire energy sector enters a state of disarray as demonstrated by recent developments. As the price of crude oil has increased, the GOS is having to revise its price structure every four months and raise the price at the pumps. However, the distributors are not realizing any gains from the price hikes due to the BFP ceiling.

¶13. (U) While the GOS attempts to protect consumers at the pump, distributors claim that the current price structure is artificial and that it hampers the development of the retail petroleum sector. Due to thin

profit margins under the current price structure, distributors claim that they are not interested in investing in further capital improvements. Nor are they inclined to bring in more product than absolutely necessary. Whereas jet fuel and marine fuel are not regulated, companies like Exxon/Mobil claim to be focusing their attention to this "international trade" and not on stockpiling refined product for local consumption due to the BFP ceiling. Senegal's six, networked storage facilities are owned by Total, Exxon/Mobil and Shell. Oil suppliers, authorized since 1998 to import and stock refined petroleum, are technically required by the GOS to maintain a security stock of 35 days. (COMMENT: Exxon/Mobil sources find this proposition unrealistic, arguing that Senegal does not have a storage capacity to maintain a 35-day security stock. END COMMENT.)

¶14. (U) The petroleum suppliers are calling for price liberalization to ameliorate the energy situation in Senegal and demand that the import-parity principal be aligned with the European/American oil commodity market price instead of that set by the Mediterranean oil commodity market, for which the ceiling is substantially lower than the market price set within the European/American oil commodity market. According to Senegal's Ministry of Energy, the international oil suppliers (Shell, Total, and Exxon/Mobil) would gain an additional USD 15 million annually if the GOS were to switch to the European/American price standard.

LIGHT AT THE END OF THE TUNNEL

¶15. (SBU) If the World Bank-financed Canadian auditor does not recommend aligning the import-parity price with the European and American market price, SAR and the main distributors (Total, Shell, and Exxon/Mobil) have threatened to cease their operations in Senegal. GOS officials take the threat seriously, are in regular discussions with the petroleum suppliers to keep the lines of communication open, and hope to avert a complete shutdown. The Canadian consultant is expected to complete his assessment by the end of May 2006.

¶16. (U) On April 23, 2006, the GOS and the oil suppliers reached a consensus and raised the fuel price at the pump by 3.6 percent, from CFA 602 to CFA 624 per liter (USD 1 = cfa 515) for premium grade gasoline. For diesel product there was a 4.8 percent increase, from CFA 514 to CFA 539 per liter. Despite the increase in prices at the pump, petroleum suppliers will not see an increase in their coffers though.

¶17. (U) On a related note, the GOS through Petrosen is planning to purchase Exxon/Mobil's 11.8 percent share in SAR at a cost of USD 2.5 million. Additionally, it is

reported that the GOS is pressuring Total to sell 11.8 percent of its shares to Petrosen to make the GOS the second largest shareholder in SAR after Total, thereby increasing the GOS' influence in the refining sector. Carmello Sagna, Director of National Committee of Hydrocarbons, criticized such a move on the grounds that GOS does not have enough financial muscle to contribute to the necessary overhaul and maintenance required of the refining sector. He argues that the GOS should focus on building more storage facilities and on liberalizing the imports of refined petroleum products to local distributors such as Elton, Touba Gaz and others.

COMMENT

¶18. (U) The significant deterioration of Senegal's energy sector over the last few years is negatively affecting its economy, which has been on a ascending path since 1994. Although quantitative estimates vary according to source,

the power shortages without doubt, are causing business losses of output and sales, and will contribute to a slowdown in GDP growth.

¶19. (U) As the 2007 presidential/legislative elections approach, there is also the political impact to consider. Both the GOS and Senelec are under pressure to find a solution and are finally trying to schedule power outages to enable people to plan their activities around them. However, the situation will only be a short reprieve if the current price structure is not corrected. Energy demand will continue to grow as the economy grows and as the Government expands electricity availability throughout the country. If the Government fails to implement new sustainable, long-term energy policies in the near future, Senegal will plunge into another electricity crisis within the next year or two.

¶20. (SBU) Post will report septel on the impact of Senegal's energy crisis on the local business community and Senegal's GDP growth, as well as the impact on neighboring countries. Post will also address Senegal's medium and longer-term proposals to address this crisis. In the short term, President Wade has reportedly sought a diplomatic solution by asking President Chirac to weigh in with French petroleum supplier Total, SAR's major shareholder, and Wade also found some relief when Morocco agreed to provide refined fuel to Senelec in April. END COMMENT.

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